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MEDICARE NEWS

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MEDICARE SELECTS SUPPLIERS FOR SAN ANTONIO PROJECT TO LOWER MEDICAL COSTS AND PROTECT QUALITY

The Medicare program today announced the selection of suppliers for a pilot project in the San Antonio, Texas, area that will help beneficiaries pay more reasonable prices for certain medical equipment and supplies.

The competitive bidding project will save beneficiaries and Medicare an estimated 20 percent on the medical items, compared with the regular Medicare fee schedule for Texas, while protecting quality and access for beneficiaries.

The project, authorized by the Balanced Budget Act of 1997, will operate in Bexar, Comal and Guadalupe counties, beginning Feb. 1, 2001, until Dec. 31, 2002. It uses private-sector competition to establish prices for hospital beds, manual wheelchairs, oxygen, non-customized orthotics, and drugs dispensed by nebulizers. Current law does not provide for Medicare to use competitive bidding generally for these supplies.

In the San Antonio project, Medicare reviewed 179 bids from 79 different suppliers for both quality and price. Based on those bids, Medicare established new payment rates that are an average of 20 percent less than Medicare's existing fee schedule for five categories of medical supplies. A similar project in one Florida county already is saving beneficiaries about 17 percent.

"These results show that competition can work for Medicare beneficiaries," said Michael Hash, acting administrator of the Health Care Financing Administration, the federal agency that runs Medicare. "In the short run, beneficiaries in these Texas counties will receive quality supplies and services at more reasonable prices. In the long run, we hope that all of the 39 million Americans who rely on Medicare will share in these types of benefits."

Suppliers who met the demonstration's high quality standards and submitted competitive bids will serve Medicare beneficiaries in the San Antonio area at the new rates. The prices will remain in effect through Dec. 31, 2001. The pilot project will:

- Ensure that Medicare beneficiaries obtain medical equipment and supplies from suppliers that were carefully screened and met or surpassed Medicare's quality standards.
- Enable Medicare and its beneficiaries to pay an estimated 20 percent less for equipment than the fee

schedules otherwise required by law.

- More -

- 2 -

- Ensure that beneficiaries can choose their preferred supplier from those companies that submitted successful bids in terms of quality and price.
- Ensure that beneficiaries are not overcharged for their share of the costs by limiting copayments to 20 percent for the included equipment, supplies and services.

Using authority obtained in the Balanced Budget Act of 1997, Medicare developed the demonstration to use competition to determine reasonable prices for certain types of medical equipment and supplies. Medicare currently reimburses for these items based on fee schedules required by law. However, studies by the U.S. General Accounting Office and the HHS Inspector General have shown that Medicare and its beneficiaries are often forced to pay substantially higher prices than other government agencies for the same items and services.

The five categories of products in the San Antonio demonstration are: oxygen supplies; hospital beds; manual wheelchairs; non-customized orthotic devices, including “off-the-shelf” items such as braces and splints; and albuterol sulfate and other nebulizer inhalation drugs, which are used to treat lung disease and similar conditions.

For each type of equipment, the demonstration established more reasonable rates than the existing fee schedules. The savings are estimated at 17 percent for oxygen supplies and equipment; 25 percent for hospital beds; 21 percent for manual wheelchairs; 18 percent for orthotic devices; and 26 percent for inhalation drugs.

“Competition helps Medicare beneficiaries receive quality medical supplies at fair market prices,” Hash said. “Old and inflexible laws have forced Medicare to spend more for equipment than market prices or common sense should allow. That must change.”

Nationwide, Medicare pays about \$6 billion annually for durable medical equipment, prosthetics, orthotics and supplies. Roughly half of that amount is spent on the five product categories included in the project.

Medicare is sending contracts to successful bidders and notifying unsuccessful ones of the preliminary results. A final list of demonstration suppliers will be available in December after a thorough review of any reconsideration requests by bidders and additional information about quality provided by suppliers.

Under the demonstration, Medicare will pay 80 percent of the new lower prices, and beneficiaries will pay 20 percent of that lower amount, which means beneficiaries and the Medicare program will save money. Demonstration suppliers also must agree to accept Medicare assignment so that beneficiaries do not pay more than 20 percent. Under existing Medicare requirements, suppliers who do not accept assignment can charge beneficiaries more than the standard 20 percent.

The project incorporates a number of protections for beneficiaries:

- Quality standards. Medicare conducted site visits and background checks to ensure that successful bidders have solid track records of providing quality supplies and services. Suppliers who failed this

- More -

- 3 -

quality review -- which is more stringent than Medicare's existing standards -- were not selected even if they bid in the competitive range.

- Beneficiary choice. Medicare selected enough suppliers for the demonstration to ensure access to high quality services and a choice of suppliers across the three counties. For each product category, between six and 29 companies were selected.
- Quality improvements. Medicare inspectors looked for improvements that could be made at the demonstration suppliers, and Medicare is making approval conditional on a number of suppliers making improvements in their services. Examples include better education of beneficiaries, faster delivery, and improvements in call-back procedures to confirm patient satisfaction.
- Information campaign. Medicare is conducting a comprehensive education and outreach campaign – in English and Spanish – for beneficiaries, physicians and suppliers. Every beneficiary will receive a directory of demonstration suppliers and a clear explanation of changes in Medicare rules.
- Custom-made products. The demonstration will not include any custom-made products, which must be fitted for individual beneficiaries. Beneficiaries will continue to be able to purchase such equipment from any supplier under existing Medicare policies.
- Local ombudsperson. An ombudsperson in San Antonio will respond to beneficiary concerns and monitor the project to make sure beneficiaries continue to receive quality equipment, supplies and services.
- Transition protections. Beneficiaries will be able to maintain their existing relationships with suppliers of oxygen and inhalation drugs, and continue rental agreements for hospital beds and wheelchairs. Also, beneficiaries with non-customized braces and other orthotic equipment can continue to rely on the original provider for repairs and services.

The San Antonio region was selected for this demonstration because it has enough suppliers and people to create the potential for significant savings for both beneficiaries and the Medicare program without sacrificing high quality or access for beneficiaries. About 112,000 senior citizens and disabled residents in the three-county area receive Medicare benefits. In 1998, Medicare paid an average of \$287 per beneficiary for medical equipment and supplies in San Antonio.

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